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The Interpretation of Ricardo.

By SIMON N. PATTEN.

Reprinted from the *Quarterly Journal of Economics* for April, 1893.

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THE INTERPRETATION OF RICARDO.

EVER since the death of Ricardo there has been an increasing interest in him and his writings. For all deductive economists his theories have had a charm which those of no later writer possess. There are many whose reasoning is more perfect, many whose ideas are more clearly expressed; but few have attained the commanding position of Ricardo in economic theory.

On the other hand, among a large class of economists with inductive and historical tendencies, any doctrine to which Ricardo's name is attached is discredited, and often treated with contempt. I have no desire to enter this controversy, which must rest as it is until a new spirit causes men to interpret the history of economic theory from a new standpoint. I only desire to discuss the interpretation of Ricardo's writings which has grown up among his followers and disciples, and from a position friendly to him and them. Few writers have a greater interest in deductive economics than I, and no one would be less willing to say anything that would reflect any discredit or lower in any way the high esteem in which Ricardo is held. Yet it seems to me that his friends in defending him have placed him in a false light, and have distorted the history of economic theory. Ricardo is too great a man to need any false praise: his merits will only be magnified if he is placed in his true historical position as an economist.

Perhaps I can bring forward the issue I want to discuss no better than by asking a question. In the early part of the year 1815 a remarkable essay by Malthus appeared, which opened up the discussion of the theory of rent; and a few months later came a still more remarkable essay by

Ricardo, in which the position of the modern economist was clearly represented. There is a marked difference between the essay of Malthus and that of Ricardo. The character of the change which Ricardo brought about in economics becomes more manifest when we compare the position of Malthus with that taken by Ricardo in his *Political Economy*, published two years later. How are we to explain the difference in tone between the essay of Malthus and that of Ricardo, and more especially how are we to account for the sudden appearance of a work of so much importance as Ricardo's *Political Economy*? It might be claimed that, upon reading the essay of Malthus, a new theory of political economy loomed up before him, as a sudden inspiration, so to speak. But such radical changes in the ideas of a mature man rarely take place. It is true that sometimes one man gives a new impetus to the thinking of another, as is shown in the influence of Hume on Kant; yet in this classic example it took years for Kant to work out his system, while Ricardo seems to go through his evolution of thought in a few months.

Out of this difficulty there is a way which has received much favor from later economists; and that is to ignore Malthus's books entirely, and to treat rent and other doctrines of Ricardo as the product of his own thinking. In this way, however, a great injustice is done Malthus, and the development of the ideas of Ricardo is placed in a false light. We are not called upon to put all these theories in a bunch, and then decide whether Malthus or Ricardo was their sole discoverer. The works of these two writers are distinct and supplementary. Ricardo did much for economic theory, but it was different from what Malthus did; and the glory of the former is reduced, and not increased, by ignoring Malthus. The strength of each of these writers lay in fields where the other was weak.

Let us go back therefore to the beginning of the period to which these writers belong, and try to place each in his

true position and give to him the credit to which he is entitled.

It is plain that both these writers took their starting-point in economic investigation from the writings of Adam Smith. The *Wealth of Nations* contains the elements of two different economies or modes of viewing economic affairs. But they are blended so nicely that their lack of harmony did not become evident until a new development in the industrial world brought new issues to the front.

The older economy may well be called the agricultural economy. It supposes that the mass of the people resides in the country, and depends upon the cultivation of the soil for a living. Under these conditions land problems are of vital importance to society, and the surplus from land is almost the sole cause of social progress. So small a use is made of capital that it is not considered of enough importance to place it beside land and labor as an agent in production or a factor in distribution. The loaning of money on interest is looked upon as an evil, because the borrower usually expends the money received on luxuries, and does not use it to increase the productive power of society. The leading contrast in the sources of income lies between rent and wages: the first represents the surplus of society; the second, its costs. Prosperity, therefore, depends upon the increase of rent. If the landlords are prosperous, society is prosperous, because the surplus of the landlords is diffused throughout society, and creates its prosperity. These ideas were developed more consistently by the Physiocrats than by other thinkers, yet the same general principles lie at the basis of all the earlier writers who think of society as made up of agricultural communities.

The growth of cities as a result of the industrial development of the eighteenth century created a new way of viewing national progress, which may be called the indus-

trial economy. The rapid increase of capital is the leading phenomenon of such a society. It is the one thing around which all the problems of city life cluster. Buildings, machinery, raw material, finished goods, and all other necessities of production and exchange are viewed merely as forms of capital; and the dependence of production upon nature (the leading fact of a country economy) is overlooked or neglected. Even the food supply is considered more as a product of saving than as a product of natural forces.

The two factors of production thus become capital and labor, and the two forms of income are profits and wages. Capital takes the dominant place that land takes in the agricultural economy, and the surplus of society becomes profits instead of rent. Wages are still the equivalent of cost, but they are contrasted with profits instead of with rent. In the agricultural economy wages fall as rents rise; while in the industrial economy wages fall as profits rise, and the opposite. Just as in the agricultural economy the prosperity is measured by the prosperity of the landlords, so in the industrial economy prosperity is measured by the condition of the capitalists. The rate of profits becomes the criterion of prosperity instead of the increase of rent.

In making this comparison, I am fully aware that no writer or group of writers has made use of all these premises. I am merely making use of elements that lay at the basis of their mode of thinking, and were but partially incorporated in their writings. Each writer meant to give an impartial view of the national economy; yet his environment and education colored his views, and created a tendency to neglect facts that did not harmonize with preconceived opinions. Even many city economists viewed the national economy from a country standpoint, and failed to see the industrial function of cities or of capital in modern life.

As long as the national economy was viewed from either of these standpoints, the theory of political economy was of necessity a theory of prosperity. There can be no proper theory of distribution until the disposition of some portion of the surplus income of society is undetermined. With wages at a minimum, and all the surplus of society being either rent or profits, no law of distribution was needed. There was need only of a measure of prosperity, and this measure could be found in the growth of rent or of profits. It is true that in these earlier societies there were rent, profits, and wages; but so long as the country people did not recognize the industrial function of the city, and city people neglected the relation between their prosperity and that of the country, these three elements could not be brought into vital relation. Country people looked upon the city as a place to spend money. The extravagance of court circles attracted their attention more than the activity of city artisans. On the other hand, city people knew little of country people except as country gentlemen and other landlords, who were pictured as living upon the bounty of nature rather than upon the fruits of their industry. So long as city people regarded the wealth of the nation as divided among artisans, capitalists, and country gentlemen, and country people thought the distribution was among farmers, land-owners, and city spendthrifts, the basis of a theory of distribution was lacking. It was only possible to indicate what disposition of the surplus was for the best interests of society; and of that disposition there could be no question, either in the minds of the city or of the country people, so long as they viewed production in so partial a manner.

In comparing these two economies, we shall find the basis of the differences which separated Malthus and Ricardo, and at the same time made their intercourse with each other so valuable to themselves and to the development of economic science.

Malthus viewed the problems of prosperity from a rural point of view, and made national prosperity to be the same as agricultural prosperity. The index of country prosperity he found in the amount of agricultural rent, and hence assumed that the increase of agricultural rent was the measure of the increase of national prosperity. But Ricardo was a man of another type, having the instincts and education which a city environment alone can give. He is the first writer to take the industrial phenomena of city life and to create an economy based upon those characteristics. Land problems and commercial problems are with him secondary, and are not considered until the elements of industrial life in the cities have been arranged. With earlier writers purely industrial phenomena are considered merely as a modification of the laws of trade and agriculture. With Ricardo the order is reversed. From industrial facts he develops his fundamental laws, then bringing the laws of trade and agriculture into harmony with them.

Ricardo's thinking on economic subjects begins with a study of the conditions which determine the rate of profits, and about this all of his system is constructed. Adam Smith had said that the rate of profits was lowered by the competition of producers. Ricardo, who had been a close follower of Smith, differed from him on this point, and began his independent thinking by controverting this opinion. He showed that values could not rise or fall as a whole. General high or low values were impossible, and hence the fall of profits must have some other cause than increased competition. The true cause he found in an analysis of value. He saw that the cost of production of all freely produced commodities depends solely upon the quantity of labor required to obtain them; and, as general values cannot rise or fall, the rate of profits is determined by the cost of this labor. There was no way through which an employer received a compensation for

a rise in wages; and there could be but one result,—a fall of profits.

High wages, however, did not mean to Ricardo a better condition of the laborers. He was a firm believer in the law of population developed by Malthus, and consequently regarded high wages as indicating a higher cost of the articles which the laborer consumed. He assumed further that the consumption of the laborers was mainly food, and hence concluded that high wages indicated a high price of food. Profits by this chain of reasoning is put in contrast with the price of food. Low profits mean a high price of food, and high profits a low price of food. Thus Ricardo reached the famous contrast that lies at the basis of his system. He seized firmly the proposition that the rate of profits depends upon the price of food, and he never lost sight of it through all of his subsequent investigation.

Profits were falling in England at this time, and the price of food was rising: the latter, therefore, was the cause of the former. This high price of food was due to the tariff on the importation of food; and Ricardo naturally became a free trader, denouncing the Corn Laws as the cause of the low rate of profits. In this stage of his development Ricardo did not suppose that a high price of food and a low rate of profits were a necessary consequence of industrial progress. His conclusions were based on the concrete industrial condition of England at this time. Free trade was the remedy for the abnormally high price of food which governmental restriction had caused. Through it a higher rate of profit could be obtained, and industrial prosperity restored.

With these conclusions Malthus did not agree. He looked at economic problems from an agricultural point of view, and thought that national prosperity depended upon a high price of food. Rent, he contended, was a creation of new wealth, and not a transfer of wealth from

the industrial classes to the landlords. Ricardo, however, regarded rent as a creation of value merely, and not a creation of wealth. The rise of rent indicated a transfer of the surplus of society from producers to landlords, and a fall in the rate of profit. What was once profit became rent through the high price of food.

The essay of Malthus on the *Nature and Progress of Rent* was the outcome of this controversy about the Corn Laws. He desired to show that the high price of food was not due to the Corn Laws or to monopoly, but was a natural consequence of national progress. The increase of population required more food, and more food could be obtained only by the cultivation of poorer land. The high cost of cultivating these poorer lands demanded a high price of food, and a nation could not be populous and prosperous without such an increase in the price of food as would allow poor lands to be cultivated with the usual rate of profit to farmers. The high price of food was therefore the result of an increasing population, and not of the Corn Laws. The latter strengthened the motives which lead farmers to improve their land, and thus created the fund out of which increased rents could be paid. Malthus, therefore, naturally became a protectionist, defending the Corn Laws.

This essay on rent did not have the effect upon Ricardo that Malthus anticipated. Ricardo saw what Malthus did not see,—that the new theory fitted admirably into Ricardo's system, and made the proof of his theory of the relation of the price of food to profits more perfect. The law of rent came into Ricardo's system, *not as a basis, but as a better proof of a theory already developed*. He now saw that the high price of food was a natural consequence of industrial progress.* He was therefore able to base his

* "High rents and low profits . . . ought never to be the subject of complaint if they are the effect of the natural course of things." See Ricardo's *Essay on the Influence of a Low Price of Corn on the Profits of Stock*, p. 20.

theory that profits fell as the price of food rose on a general law of nature, and not on a specific study of English conditions. Instead of drawing the particular conclusion that the Corn Laws raised the price of food in England, and thus reduced the rate of profit, he could appeal to a line of argument that would prove deductively the well-known historical fact that the rate of profit fell with every increase of national prosperity.

The discovery of the cause of rent was the beginning of a new epoch in the development of economic theory, for it turned the attention of economists from the theory of prosperity and the disposition of the surplus of society to theories of value and distribution. While, however, an impetus to these new studies was given by the writings of Malthus and Ricardo, it is a serious mistake to assume that their interest centred in the theory of distribution instead of the theory of prosperity. So much emphasis has been given to the theory of distribution by recent economists that they are apt to read into the writings of the earlier economists opinions which would impute to them the ideas of a period later than that in which they lived. The theory of distribution could not be developed until some laws were formulated, fixing the size of the funds distributed as rent, profits, and wages.* Nor could the theory of value assume a prominent place until it was known what elements did and what did not enter into the cost of production of commodities. Neither of these theories, therefore, could be discussed until the theory of rent was discovered. When the concept of marginal cost had displaced that of average cost, it became possible to resolve profits into a number of special costs (risks, abstinence, etc.), and then to say that value *equals* the cost of production instead of the older formula that cost is *proportional* to value.

* All theories of distribution are dependent upon some theory of value to fix the size of the funds to be distributed.

The theory of prosperity contrasts only cost with surplus, and does not need any theory of value for its discussion. The theory of cost of the earlier writers was simple, because they assumed that the laborers received none of the surplus, and that all the consumption of the laborers was in the form of food, which included clothing and shelter. The surplus was therefore the difference between the cost of food and the value of the whole produce of industry.

As later writers have analyzed profits and interest into a species of cost, it may be well to show that the older economists regarded them as a part of the surplus. In this way it can be shown that the older economists viewed political economy primarily as a theory of prosperity.

The profits of stock, it may perhaps be thought, are only a different name for the wages of a particular sort of labor,—the labor of inspection and direction. They are, however, altogether different, are regulated by quite different principles, and bear no proportion to the quantity, the hardship, or the ingenuity of this supposed labor of inspection.— *Wealth of Nations*, Book I. chap. vi.

Like the rent of land, it [interest] is a net produce which remains after completely compensating the whole risk and trouble of employing the stock.— *Ibid.*, Book V. chap. ii. Article II.

The more general surplus here alluded to is meant to include the profits of the farmer as well as the rent of the landlord, and therefore includes the whole fund for the support of those who are not directly employed on the land. Profits are, in reality, a surplus, as they are in no respect proportioned to the wants and necessities of the owners of capital.— *Malthus, Inquiry into the Nature of Rent*, p. 16, note.

Provided its net real income, its rent and profits, be the same, it is of no importance whether the nation consists of ten or of twelve millions of inhabitants.— *Ricardo, Political Economy*, chap. xxvi.

On these points there were no differences of opinion: the dispute related to the disposition of the surplus,—whether it was better for society that the surplus should be rent or profits. Adam Smith and Malthus held that high rent was the measure of social progress, while Ricardo main-

tained that high profits was the true measure. To contrast these two opposing positions, it may be well to quote from these writers.

Every increase of the real wealth of society [says Smith], every increase in the quantity of useful labor employed within it, tends indirectly to raise the real rent of land. . . .

These are the three great original and constituent orders of every civilized society, from whose revenue that of every other order is ultimately derived. The interest of the first of those great orders [landlords] it appears from what has been just now said is strictly and inseparably connected with the general interest of the society. Whatever promotes or obstructs the one necessarily promotes or obstructs the other. When the public deliberates concerning any regulation of commerce or police, the proprietors of land never can mislead it, with the view to promote the interest of their own particular order, at least if they saw any tolerable knowledge of that interest. . . .

But the rate of profit does not, like rent and wages, rise with the prosperity and fall with the declension of the society. On the contrary, it is naturally low in rich countries and high in poor countries; and it is always highest in the countries which are going fastest to ruin. . . . The proposal of any new law or regulation of commerce which comes from this order [employers of labor] ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous but with the most suspicious attention. It comes from an order of men whose interest is never exactly the same with that of the public, who generally have an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it. — *Wealth of Nations*, Book I., conclusion of the last chapter.

Rents [says Malthus] are neither a mere nominal value nor a value unnecessarily and injuriously transferred from one set of people to another, but a most real and essential part of the whole value of the national property, and placed by the laws of nature where they are, on the land, by whomsoever possessed, whether the landlord, the crown, or the actual cultivator. — *Malthus, Inquiry into the Nature of Rent*, p. 20.

It is not, of course, meant to be asserted that the high price of raw produce is, separately taken, advantageous to the consumer, but that it is the necessary concomitant of superior and increasing wealth, and that one of them cannot be had without the other. — *Ibid.*, p. 47.

It is easy to find other statements of this character in both these writers, but enough has been presented to show the defective analysis they make of the causes of national prosperity. The industrial function of city producers was not understood; while high profits were regarded as coming from illegitimate sources, and not due to an increase of productive power. To break the force of such ideas, it was not a new theory of distribution that was needed, but a new analysis of production, and of the causes of prosperity. The place of city people in production must be made clear, and the causes of high rents properly analyzed. In short, the fact demanded emphasis that the increase of prosperity depended more upon industrial than upon agricultural conditions, and, further, that the increase of wealth was due to high profits, and not to high rents.

Ricardo was the first economist to view economic relations solely from an industrial or city point of view, and hence from the start he consciously puts himself in opposition to the theory of prosperity held by Smith and Malthus. He did not need a formulation of the law of rent to arouse him in an economic world, dominated by the ideas of these writers. It was the cause of rent and profits that first interested him, and not the law of their distribution. His letters to Malthus show clearly that the relation of the price of food to the profits of stock was one of the first subjects to which his attention was directed.

If by adopting such policy [Corn Laws] a country were to enhance the value of the raw materials which it consumes, of which corn is the principal, it would thereby lower the rate of interest. . . . This is a repetition, you will say, of the old story, and I might have spared you the trouble of reading at two hundred miles' distance what I had so often stated to you as my opinion before; but you have set me off, and must now abide the consequences. I was never more convinced of any proposition in political economy than that restrictions on importation of corn in an importing country have a tendency to lower profits.—*Letters of Ricardo to Malthus* (Bonar's edition), No. XV.

I have been endeavoring to get you to admit that the profits on

stock employed in manufactures and commerce are seldom permanently lowered or raised by any other cause than by the cheapness or dearth of necessities, or of those objects on which the wages of labor are expended. Accumulation of capital has a tendency to lower profits. Why? Because every accumulation is attended with increased difficulty in obtaining food, unless it is accompanied with improvements in agriculture, in which case it has no tendency to diminish profits.—*Ibid.*, No. XXI.

I have now read with great attention your essay on the rise and progress of rent. . . . I cannot, however, help regretting that you did not consider separately the relations of rent with the profits of stock and the wages of labor. By treating of the joint effect of the two latter on rent, you have, I think, not made the subject so clear as it might have been made. . . . I think, too, that rents are in no case a creation of wealth: they are always a part of the wealth already created, and are enjoyed necessarily, but not on that account less beneficially to public interest, at the expense of the profits of stock. *Ibid.*, No. XXIII.

The first two of these extracts were written before the appearance of Malthus's essay on rent, and the third is from the letter acknowledging its receipt. They show how clearly and definitely Ricardo had worked out his fundamental ideas before he heard of the theory of rent. The relation of the price of food to the rate of profits is the central thought of his early as well as of his later writings, and the charm of his reasoning is mainly due to the able manner in which he groups so many other ideas around this one thought. In this way that crude and incongruous concept of the industrial world upon which Smith and Malthus based their theory of prosperity was displaced by Ricardo by another concept more in harmony with the phenomena of his own time.

Viewing Ricardo's *Principles of Political Economy* in the light of these facts, it is not difficult to divide the book into parts which will show the periods in the development of his system of thought. It was either partly written before the essay of Malthus on rent appeared, or the specific and isolated manner in which Ricardo was

accustomed to study the several economic problems in which he was interested prevented him from uniting them into an organic whole and restating his proof in harmony with the new conditions. He does not co-ordinate rent with profits and wages, thus consciously breaking the ground for a theory of distribution. He remains satisfied when he has shown that the theory of rent does not affect his theory of value, because rent is not a part of the cost of production of commodities. Profits are still made to depend upon wages, rent being recognized only in an indirect manner. He thus left for later writers that transformation of political economy into a theory of distribution which shows itself plainly in J. S. Mill, but most completely in F. A. Walker.

The early form of Ricardo's thinking is shown in his discussion of value and prosperity (riches). The following chapters contain the nucleus of this economic system before it was modified by contact with contemporary economists: XXVI., "On Gross and Net Revenue." XX., "Value and Riches, their Distinctive Properties." XXVIII., "On the Comparative Value of Gold, Corn, and Labor, in Rich and Poor Countries." I., "On Value." IV., "On Natural and Market Price." V., "On Wages." XXI., "Effects of Accumulation on Profits and Interest." The order is not that in which they were written or that in which they appear in his book. In writing he seems to have started from the point of greatest present interest, and afterwards to have added chapters as they occurred to him or as they were suggested by current economic discussion. In this way some of the topics to which his attention was at first directed come late in the book. The chapter on Profits (VI.) logically belongs to this group, but he has evidently revised the argument of the first part of it to make it conform to the new theory of rent. His earlier views on profits are better stated in the chapter on the Accumulation of Profits.

In these chapters he shows clearly the influence of Adam Smith. The writings of the latter are the starting-point for the discussion of each specific point, and then Ricardo proceeds to develop his own ideas by a contrast between his position and that of Smith.

The second period includes the parts relating to money and foreign trade. In these discussions Ricardo reasons from original investigations based upon facts within his own experience and observation. Here is the *pure* Ricardo. The familiar facts of trade and commerce are isolated from other industrial phenomena, and treated as though they formed a complete industrial world of their own. They are, however, specific, concrete, and pictorial, presenting a picture of the world as seen from the books of a merchant or banker. Bold deductions are made from these specific cases which were happy in their results because the whole industrial world was then moving along lines where bankers and traders had gone before.

The third period in Ricardo's thinking resulted from the discovery of the theory of rent by Malthus. Under its influence he changed the character of his law of the relation of profits to the price of food from a particular to a general law, and revised his discussion of profits by basing his argument on the law of rent. (See his chapter on Profits.) This change in the argument for his fundamental propositions naturally turned Ricardo's attention away from the theory of prosperity to the problems of distribution. The chapter on Profits was, I think, the last chapter that he thought out (in its present form); and there he has partially shifted his point of view from prosperity to distribution. His Preface, however, was last of all to be written; and in it he has finally become conscious of the importance of distribution, and declares it to be "the principal problem of political economy."

This Preface is of peculiar importance as an illustration of the specific way in which Ricardo reasoned and of the

difficulty he had in breaking away from the concrete form in which he first thought of individual problems, and shows the effort required for him to see a general truth instead of concrete particular laws. Nowhere throughout his whole book does he treat rent, profits, and wages as co-ordinate factors in distribution, after the manner in his Preface. He often contrasts profits and wages, or profits and rent, but never rent and wages. If he had broken away from his concrete thinking enough to contrast wages and rent, he would have forestalled Henry George, since the latter writer has nothing new of theoretical importance except this contrast neglected by Ricardo and his followers.

The cause of the concrete way in which Ricardo looked at economic problems is easily explained, when we have the key to the development of his thinking. In discussing value as a static problem, he always contrasts profits with wages, because wages are costs of production, and profits are its surplus. When, however, he was discussing the distribution of the surplus (net produce), he always contrasts profits with rent. The latter grows at the expense of the former, whenever the increase of population due to social progress raises the price of food. We have in his book these two concrete doctrines stated in an endless variety of forms; but nowhere except in the Preface does he generalize enough to see the co-ordinate relations of rent, profits, and wages in the theory of distribution.

It may seem strange to assume that the Preface was written after the rest of the work. Books, however, are written on two plans. Systematic writers think out their whole scheme before beginning to write, and their prefaces reflect the contents of the books. Unsystematic writers, like Ricardo, begin without any clearly perceived plan, write section after section in a haphazard manner, frequently changing the order of the sections in the book. There is therefore no clew to the order in which

the chapters of such a book were actually written except internal evidence. The first may be last, and the last first, or first and last both may be in the middle of the book. When a writer of this class has finished his book, he writes his preface. It is not, however, an introduction to the book, but an appendix to the last chapter he wrote, with perhaps a few odds and ends for which he found no other fitting place. With Ricardo his Preface is an appendix to his chapter on Profits, where he finished his writing, and in which he dimly saw the theory of distribution which became so important in the subsequent development of the science.

From internal evidence I am inclined to believe that James Mill wrote or at least inspired the first three paragraphs of the Preface. They have his tone and style, and not Ricardo's. As I have said, Ricardo never co-ordinates rent, profit, and wages. Mill does this consciously from the start. Ricardo never classes machinery with labor and capital. His capital is primarily food, and thus he contrasts labor with the sustenance of labor. Mill, however, regards capital primarily as tools or instruments, increasing the productive power of men. He would, therefore, naturally make a threefold division,—labor, the material aids to production, and sustenance.

The fourth and subsequent paragraphs of the Preface have a true Ricardian ring, and were doubtless at one time the whole of the Preface. They are specific and definite statements of facts, beginning with a reference to the discovery of the true doctrine of rent by Malthus and West. His modest appreciation of his own abilities shows itself plainly in the fifth paragraph, and his characteristic appreciation of Adam Smith and Say in the two last paragraphs. In this part of the Preface, according to Ricardo's usual method of treatment, wages and profits are regarded as the ultimate shares in distribution; while, as a whole, they are contrasted with rent which grows at

their expense. To write such sentences as these was natural to Ricardo, and he needed no aid in their construction. But the first three are of a different character. They must have been inspired by some one else or written at a later period than the rest of the Preface, and thus marked a transition in the thinking of their author from the theory of prosperity to that of distribution.

It is also a mistake to assume that Ricardo generalized sufficiently upon the data which the law of rent gives to make the cost of production the cost of that portion of a commodity produced under the most unfavorable circumstances. He did indeed get glimpses of this law in concrete cases, but he failed to grasp those features of the modern industrial world upon which F. A. Walker has recently based his law of profits. Professor Gonner, however, is of another opinion, and says that Ricardo states this law with the utmost lucidity.* He quotes the following passage in support of his position : —

The exchangeable value of all commodities, whether they be manufactured or the produce of the mines, or the produce of land, is always regulated, not by the less quantity of labor that will suffice for their production under circumstances highly favorable, and exclusively enjoyed by those who have peculiar advantages of production, but by the greater quantity of labor necessarily bestowed on their production by those who have no such facilities, by those who continue to produce them under the most unfavorable circumstances, meaning by the most unfavorable circumstances the most unfavorable under which the quantity of produce required renders it necessary to carry on production.— *Ricardo's Political Economy* (Gonner's edition), p. 50.

So far as words go, this passage seems explicit enough ; but, when we seek to find what Ricardo means, it is easy to show that he did not use these words in their present significance. The next sentence shows how limited were his ideas of the principle involved.

* Ricardo's *Political Economy* (Gonner's edition, introductory essay), p. xxxiii.

"Thus," he continues, "in a charitable institution, where the poor are set to work with the funds of benefactors, the general prices will not be governed by the peculiar facilities afforded to these workmen, but by the common, usual, and natural difficulties which every other manufacturer will have to encounter."

It is evident from this sentence that Ricardo did not mean that the producers of commodities had different natural obstacles to overcome, or that they differed among themselves in the power to organize labor and capital efficiently. He had in mind only the artificial advantages which some producers have, because of governmental aid or restrictions, or because production is carried on from other motives than gain. The average producer, having the "common, usual, and natural difficulties" to overcome, fixes the cost of production; and the few producers who are exempt from some of these conditions do not fix the price of a commodity, unless they are numerous enough to supply all who want the article. This statement harmonizes fully with Ricardo's conception of the causes determining value. Eliminate every artificial condition, and all producers will have the same difficulties to surmount, and will have the same cost of production. Costs lie in relations of men to nature; and, these relations being objective, all producers are on equal footing.

The more recent conception of marginal cost assumes a graded scale of intelligence among producers, by which their industrial positions are determined. The productive power of a group of producers depends not wholly on the natural obstacles they must encounter, but also on the skill of the individual workmen and on the management, enterprise, and organizing power of their employers.

These facts were not appreciated by Ricardo, so that his application of the law of marginal cost was limited to a few unimportant cases, arising from government interference or from production carried on for charitable purposes. The law thus remained in an imperfect form until

later writers saw that the subjective differences in men were as important as the objective differences in land. It then became possible to break down the concrete barriers that separated the law of rent from that of profits, and to view them as species of a more general law.

Viewed from a purely theoretical standpoint, Ricardo's theory of taxation is the most defective portion of his book. The concrete way in which he handles each specific tax prevents him from seeing general principles or even from reaching any general classification of taxes. The same form of taxation is treated in different ways under different names. The discussion in one case seldom tallies with what he says in another, and in some instances the different parts of the same chapter do not harmonize. Taxes on rent are discussed under three different titles, and a tax on raw produce in at least four ways. He fails to reach any general law of the incidence of taxation, because he does not break away from the concrete conditions under which he studies each form of English taxation.

In many respects his discussion of taxation reminds me of Adam Smith's discussion of rent. At times he seems to see the underlying law of the incidence of taxation, and to state it clearly, only, however, soon to lose sight of it altogether, and to fall back into that hopeless confusion of ideas and principles which characterizes the popular opinion on all subjects to which the methods of scientific investigation have not yet been extended. In taxation he lacked a Malthus to stir him up to his best thinking, and to help him break away from his concrete method of investigation and reasoning. He thus left the theory of taxation in that imperfect form in which his theory of profits would probably have been left but for his contact with Malthus, or that in which Malthus's theory of rent would have been left but for Ricardo.

As was the case in most of Ricardo's reasoning, his

starting-point in taxation was taken from Adam Smith. The theory of the latter is that the burden of taxation usually falls on the consumer. A sum equal to the amount of taxation was added to the price of commodities upon which the taxes were levied. The effect of taxation is to raise the general level of prices, just as an improvement in production lowers the level of prices. Consumers get the benefit of industrial progress, and have to bear the burden of taxation.

Ricardo rejected Smith's theory of the fall in prices through competition, and should therefore have rejected the related theory that consumers bear the burden of taxation. He saw that a general rise of prices was absurd unless the value of money changed, and should have seen that taxation cannot fall on consumers, for it cannot change the level of prices. That producers pay all taxes is as logical an outcome of his theory of value as it was for Adam Smith to say that consumers pay all taxes. If the level of prices cannot be changed, taxation must cut in on the difference between the cost of production and the value of commodities; that is, it must reduce rent or profits, the two forms of producer's surplus which Ricardo recognized.

Ricardo, however, failed to take the bold stand in taxation which he took in the discussion of profits. In the theory of taxation he often loses sight of his great theorem that values cannot rise or fall, and drops his discussion of many taxes when he has traced the effects as far as the consumer, even where his conclusion does not tally with the general principles to which he is elsewhere so fond of appealing. A few quotations will help to show defects of his theory of taxation: —

(1) A tax on the produce of land . . . would raise the price of raw produce by a sum equal to the tax, and would therefore fall on each consumer in proportion to his consumption.—*Political Economy* (Gonner's edition), p. 141.

(2) The probable effect of a tax on raw produce would be to raise the price of raw produce and of all commodities in which raw produce entered, but not in any degree proportioned to the tax; while other commodities in which no raw produce entered, such as articles made of the metals and the earths, would fall in price, so that the same quantity of money as before would be adequate to the whole circulation (p. 151).

(3) Tithes are a tax on the gross produce of land, and, like taxes on raw produce, fall wholly on the consumer (p. 157).

(4) As taxes on raw produce, tithes, taxes on wages, and on the necessities of the laborer, will, by raising wages, lower profits, they will all, though not to an equal degree, be attended with the same effects. The discovery of machinery which materially improves home manufactures always tends to raise the relative value of money, and therefore to encourage its importation. All taxation, all increased impediments, either to the manufacturer or the grower of commodities, tend, on the contrary, to lower the relative value of money, and therefore to encourage its exportation (p. 196).

(5) We have seen that taxes on raw produce, and on the profits of the farmer, will fall on the consumer of raw produce. . . . I have also attempted to show that, if the tax were general, and affected equally all profits, whether manufacturing or agricultural, it would not operate either on the price of goods or raw produce, but would be immediately as well as ultimately paid by the producers (p. 242).

(6) In the same manner a tax on the profits of the farmer would raise the price of corn; a tax on the profits of the clothier, the price of cloth; and, if a tax in proportion to profits were laid on all trades, every commodity would be raised in price. But, if the mine which supplied us with the standard of our money were in this country and the profits of the miner were also taxed, the price of no commodity would rise, each man would give an equal proportion of his income, and everything would be as before (p. 187).

These passages will show in what an unequal degree Ricardo made use of his general principles in the discussion of different taxes, and why he failed to reach any positive theory of the incidence of taxation. His concrete way of viewing each tax prevented him from applying to each new tax he studied the results of other investigations. On the fundamental question whether the consumer or producer pays the tax he takes an endless

variety of positions, regardless of the demands of his theory of value. He claims in the sixth quotation that a tax on the profits of all trades would raise the price of all commodities, and hence be paid by consumers, but that, if the profits of the miner from whose mine the money came were taxed, the price of no commodity would rise, and the producers would pay all the taxes out of their incomes. So small a change could hardly produce so great an effect. The weakness of the reasoning is due to the fact that certain premises which should have been used in connection with each individual tax are neglected, and are considered only when he is conscious of having a money problem before him. Ricardo's reasoning is always most perfect when he handles problems of money and foreign trade. He will then trace the ultimate effects of a cause which otherwise he would drop when its temporary effects were explained.

The best statement of the logical outcome of his theory of value is in the second quotation. Here he affirms that a tax will not raise the price of a commodity to the amount of the tax, and that other commodities not taxed will fall in price enough to compensate the consumer for the higher price of the taxed commodity. The consumer therefore loses nothing by the tax, and it falls wholly upon the producers as a class, although not necessarily on the producer of the taxed article.

The latter part of the fourth quotation explains how this compensation for taxation is secured by the consumer. All taxation lowers the value of money, and encourages its exportation. The equilibrium is restored only when the untaxed articles have fallen below their first price enough to compensate the consumer for the somewhat higher price of the taxed articles. The immediate effect of taxation is to raise prices; but it has no ultimate effect on prices because changes in the value of money counteract the effect of taxation on consumers. (See quotation No. 2.)

The defects of Ricardo's theoretical position on taxation are due to his stopping his investigations so often when the temporary effects were shown, and of not always bringing in his general principles to show the ultimate effects. He would then have seen that all taxes fall on producers. If his theory of value is correct, taxes merely change the ratios at which commodities exchange (objective values), and hence cannot raise general values or affect consumers. They will gain by the fall of one class of articles what they lose on other classes. Taxes must therefore be deducted from the difference between total values and the total costs of production, and thus be a burden to producers.

I have gone into the details of Ricardo's theory of taxation, not to show its defects, but to point out the way he actually reasoned when not influenced by other writers of more abstract tendencies. He began his investigations with phenomena which attracted his attention, and drew from them a picture of their causes in the specific relation which they bore to one another in each particular case. He did not think of these causes as abstract principles isolated from one another, and from the phenomena in which they were active. He was slow to recognize the unity of a principle which he had seen in two or more concrete forms, and often failed to apply a line of reasoning worked out in one group of circumstances to a new group differing somewhat from the first in its details. He failed to generalize in his discussion of taxation as much as in his discussion of value or of profits, for English taxation assumed so many concrete forms that its principles were obscured. He could form a picture of the mechanism through which profits or values rose and fell, but not of the more complex mechanism of taxation.

Ricardo was not, therefore, the abstract reasoner that we have been led to suppose. His famous propositions are all the result of concrete studies of English conditions in

his time. In his reasoning he always has these conditions before him as a picture, and he returns to them for the facts and premises upon which any new conclusion is based. He naturally reasoned from the particulars of a concrete illustration to some general conclusion, but seldom reasons from generals to particulars unless prompted by the reasoning of some other economist, as was the case when Malthus developed the law of rent. His theories of money, of profits, of value, and of international trade, are all disconnected specific studies. Bold generalizations are drawn directly from the facts of some concrete problem which attracted his attention in his immediate environment. It was the happy selection of the right features of English industrial life for study, and not the breadth of his studies, that made his theories so important, and gave him his fame as an economist.

The misleading estimation of Ricardo as a reasoner has been created by the belief that the theory of rent lies at the basis of his system, and that his other theories are deductions from the laws of rent and diminishing returns. This supposition, however, is not a fact. It is so much easier for us to reach his conclusions from these general laws that we neglect the order in which his ideas were developed. We reverse the historical order of the development of his ideas for what is to us a more natural order, just as he reversed the historical order in which land was brought into cultivation for the natural order in which we now cultivate it. He did this, however, not from any inclination to abstract reasoning, but because the actual condition of English industry and agriculture was so deeply impressed upon his concrete picture of the economic world. He never thought of studying the genesis of good land from poor land, any more than he thought of the genesis of the thrifty capitalist out of the careless laborer. He took the elements of his picture as they were

in his day, and created his economic world out of their mutual relations. His laws were therefore particular and concrete, and were made general laws only by his disciples, who, reasoning in a more abstract manner, substituted new proofs for many of his conclusions.

The history of economic theory shows that its progress has been due to four types of thinking, which may be called the abstract deductive, the concrete deductive, the inductive, and the geometrical methods of reasoning. In the abstract deductive method some quality, relation, or difference is selected which belongs to many classes of phenomena, and from its presence certain deductions are made of all the phenomena which have this common quality, relation, or difference. The reasoning is always from the abstract and general to the particular and concrete. The qualities are made more prominent than the concrete wholes from which they are taken. Menger is a good example of an abstract deductive thinker. His theories of subjective value, marginal utility, and complementary goods, are excellent examples of this class of deductions. There are, of course, many examples in English economics, as Senior's theory of interest, Malthus's statement of the law of rent, and Walker's theory of profits.

In the concrete deductive method there is no analysis of the wholes into abstract qualities. The units are of a concrete world. The capitalist is that concrete person met in the bank or the office of the merchant, and the laborer is the man in the factory or following the plough. The men of a given class are thought of not as having individual peculiarities, but as having the qualities of some typical man who has impressed his characteristics deeply upon the thinker. There is a gulf between the laborer, the capitalist, and the landlord which keeps them from being classed by any common or varying qualities. Money is money, and not a species of goods; land is wheat land; and wages are food. The Englishman is an Englishman;

the German, a German; the Italian, an Italian; and, because they will always remain with their national characteristics, foreign trade is sharply distinguished from domestic trade, where all the individuals of a class have the same qualities. Economists using this method take the concrete pictures they have formed of their own industrial environment as a basis and a starting-point. They thus reason from particulars to generals by boldly assuming that all persons are the same as the concrete individuals with whom they are familiar, and that all economic phenomena remain in that concrete relation to one another in which the thinker is accustomed to picture them.

Ricardo is the best example of this class of economists. He never analyzes his units into qualities, so as to trace the development of one form of phenomena into other related forms. In spite of his bold generalizations his thinking must be called concrete, because he sees his laws only in a certain group of relations, and often fails to recognize a law, if some part of a given group of relations is lacking. His "economic man" is not created by uniting a number of abstract qualities to form the man, but by taking as a type of all men some concrete example which was impressed upon Ricardo's imagination.

The abstract thinker takes several isolated qualities or differences, and unites them in a group to form the background of a given theory. The concrete thinker, like Ricardo, finds the background of his theory already formed in some specific case in his own environment, and gets his theory by stripping from the permanent relations found in his illustration their non-essential details. In this skeleton there is a strong cohesion of the relations and qualities of which it is made up. The origin of this particular group of relations is the result of natural circumstance, and not the result of an arbitrary hypothesis of the writer. The concrete thinker therefore has great difficulty in breaking them up into their parts, unless aided by some one whose reasoning is more abstract.

This concrete method of thinking must also be sharply contrasted with inductive reasoning. In any true induction the thinker begins with specific and isolated phenomena, and by skilful selection and arrangement he is able to find the law through which they are related. True inductions should be based upon the widest observation of all classes of phenomena under all conditions and in all regions. They have little value if derived from local experience, and none at all if drawn from the mental pictures which an economist may create of the men, material, and goods which form his economic world. Compare, for example, the inductive way in which J. S. Mill tries to prove the law of diminishing returns with the way in which Ricardo looks at the same law.

Of the economists who have used the geometrical method of reasoning, James Mill is the best example. He seldom appeals directly to experience, but bases his reasoning on "laws of arithmetic," "contradictions of terms," and on "logical absurdities." In this respect his statement of the law of profits should be compared with that of Ricardo. The latter, when speaking of the relation of profits and wages, evidently has the books of a merchant or manufacturer pictured before him. Expenses are wages in their ultimate analysis, while profits are the difference between these expenses and the selling price of goods. The two sides of the ledger are concrete facts. James Mill, however, reasons as follows: "When anything is to be divided wholly between two parties, that which regulates the share of the one regulates, also, it is very evident, the share of the other; for whatever is withheld from the one the other receives: whatever, therefore, increases the share of the one diminishes that of the other, and *vice versa*" (James Mill, *Political Economy*, 2d ed. p. 72). Another characteristic argument is to be found on page 99: "It has been most pertinently and conclusively remarked by Mr. McCulloch that time does

nothing. How, then, can it create value? Time is a mere abstract term. It is a word, a sound. And it is the very same logical absurdity to talk of an abstract unit measuring value and of time creating it."

Such reasoning evidently has little in common with that of Ricardo. It shows the working of a mind trained in logical analysis and abstract deduction, but not a mind familiar with the concrete facts of the industrial world. In spite of this disadvantage, James Mill proved of great service because of his influence in revising the basis of Ricardo's arguments. The later economists have accepted the content of Ricardo's doctrines, but have preferred the arguments devised by James Mill. This combination has many logical advantages, but the direct relation in which Ricardo stood to the English industrial world was lost sight of.

I recognize that the picture of Ricardo drawn in this paper will seem unwarranted by many of my readers. It must, however, be borne in mind that most economists have acquired their ideas of Ricardo and his doctrines mainly through the writings of J. S. Mill; and it is assumed that he is a good exponent of Ricardo's views, and that he received his political economy direct from Ricardo. Doubtless Mill as a mere boy often heard Ricardo talk on political economy, but it is fair to assume that the mere statement of the theories impressed itself more fully upon his memory than the form and character of the arguments. Therefore, he could hardly be a competent judge on the latter points, especially as he had peculiar views of the logical method of political economy, in which he would naturally assume that Ricardo shared. His admiration of Ricardo was too intense to allow him to think of Ricardo as using an erroneous method of reasoning. Mill, however, shows clearly in his Autobiography that he was carefully drilled in the logic of political economy by his father. He says, further, that the abstracts of these lessons were

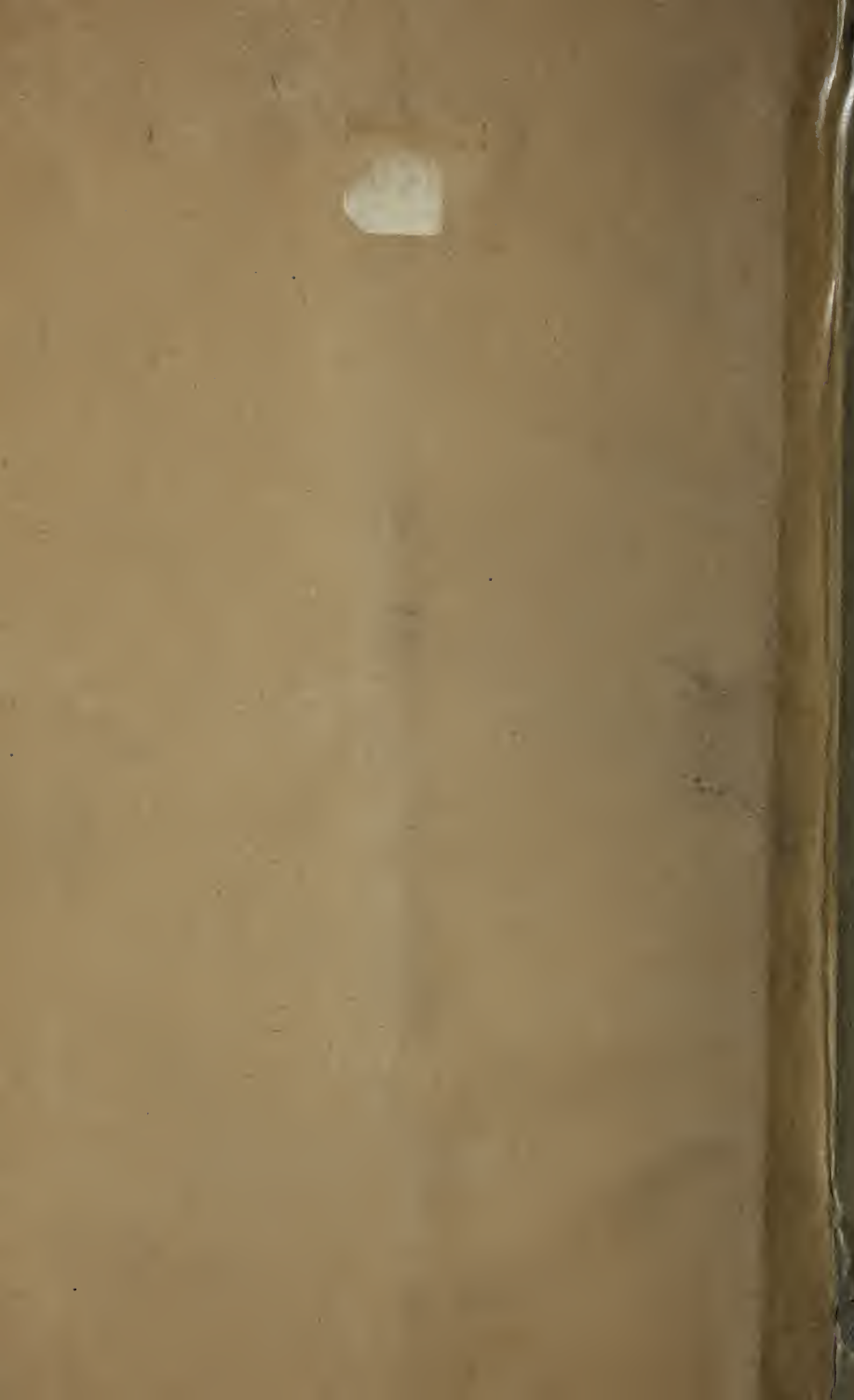
used by his father as the basis of his *Political Economy*, published shortly afterwards. It is thus evident that J. S. Mill learned the doctrines of Ricardo in the logical form which they assumed in his father's mind, and not as they were thought out by Ricardo. These facts can also be clearly shown by comparing the reasoning of Mill in his *Political Economy* with that of his father. The results of those early lessons remained firmly impressed, and it is seldom that the form of a purely Ricardian doctrine departs from the reasoning of James Mill.

It would be foreign to the plan of this paper to compare the writings of J. S. Mill with those of his father. The material for such a study is so accessible that any reader can do it for himself. But it should be kept in mind that the early part of J. S. Mill's career was in fields outside of political economy. The first epoch of his mature life was occupied mainly by the agitation which preceded the Reform Bill of 1833. During the second epoch he was fully occupied with his logical investigations. When, therefore, he finally turned his attention to political economy, a whole generation of writers on political economy had intervened between Ricardo and himself. They had materially enlarged the content of the science, and had changed the emphasis from problems of prosperity to those of distribution and value. Mill tacitly accepts the results of their investigations without doing them justice for their services to the science. He was, perhaps, unconscious of the influence upon himself of the ideas of these writers, and of the logical method of his father. He thus attributed to Ricardo ideas foreign to the time in which Ricardo lived, and a method of reasoning out of harmony with Ricardo's concept of the industrial world. In this way Mill was unjust both to Ricardo and to the economic writers who preceded him. At the same time he gave an interpretation to the writings of Ricardo which has misled subsequent economists, and prevented them from

getting a correct idea of the development of economic theory during the first half of this century. Only through a fresh study of Ricardo's writings can we free ourselves from the erroneous impression of him created by disciples who were too willing to identify his ideas with theirs, and thus be able to present a solid front to the supposed enemies of sound reasoning and correct methods of investigation. Happily, deductive economics no longer needs the united support of particular doctrines to impress its value upon the public. No valid reason remains, therefore, why the writings of each theorist should not be studied in an historical spirit, and the influence of each of these writers be fully appreciated and correctly interpreted.

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PAT JAN. 21, 1908

